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Shiller: Housing slump may exceed Depression

Bailouts will be needed so millions don't lose homes, top economist says

The Associated Press

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NEW HAVEN, Conn. - An influential economist who long predicted the housing market bubble cautioned Tuesday that the slump in the U.S. housing market could cause prices to fall more than they did in the Great Depression, and bailouts will be needed so millions don't lose their homes.

Yale University economist Robert Shiller, pioneer of the widely watched Standard & Poor's/Case-Shiller home price index, said there's a good chance housing prices will fall further than the 30 percent drop in the historic depression of the 1930s. Home prices nationwide already have dropped 15 percent since their peak in 2006, he said.

"I think there is a scenario that they could be down substantially more," Shiller said during a speech at the New Haven Lawn Club.

Shiller's Standard & Poor's/Case-Shiller home price index is considered a strong measure of home prices because it examines price changes of the same property over time, instead of calculating a median price of homes sold during the month.

Shiller, who admitted he has a reputation for being bearish, said real estate cycles typically take years to correct.

Home prices rose about 85 percent from 1997 to 2006 adjusted for inflation, the biggest national housing boom in U.S. history, Shiller said.

"Basically we're in uncharted territory," Shiller said. "It seems we have developed a speculative culture about housing that never existed on a national basis before."

Many people became convinced that housing prices would increase 10 percent annually, a notion Shiller called crazy.

Shiller, who said it's difficult to forecast prices, endorsed legislation proposed by Sen. Chris Dodd, D-Conn., and Rep. Barney Frank, D-Mass., that would allow the Federal Housing Administration to back as much as $300 billion in mortgages for struggling homeowners.